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Item 3

Economic development in Africa: Debt Dynamics and Development Finance in Africa

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Mr President, Secretary General, Excellencies, distinguished Delegates,

I have the honour of speaking on behalf of the European Union and its Member States.
We thank the Secretariat for the background document 'Economic Development in Africa: Debt dynamics and development finance in Africa' and recognise the analytical work of UNCTAD in this area.
As the economic outlook, financial and trade aspects are closely interlinked, let me begin with the a few broad observations:

1. The EU supports African economies in their efforts to **create an enabling economic, financial and social environment**, and to identify comparative advantages in productive sectors. A diversified economy, based on a wide range of industries, is essential to ensuring sustainability and reducing a country's economic volatility. We are also keen to cooperate with our African partners, notably in the field of the "development/security nexus" at large.
2. The **process of diversification** will require investment in infrastructures, human resources and institutional capacity, and an effective dialogue with the private sector. Investment in infrastructures – transport systems, energy networks, communications, etc. – plays and essential role for our African partners' economies
3. **International trade is an engine of economic growth** and development. In relation to Intra-African trade, the African Union and its regional organisations are rightly addressing infrastructure bottlenecks and trade facilitation for some time now with the Boosting Intra-African Trade Action Plan.
4. The main challenges for developing countries include achieving inclusive and sustainable growth and **creating decent jobs**. This is particularly true in Africa. As Africa's population will keep substantially increasing, more than 18 million new jobs a year will be needed by 2035. Here UNCTAD can play a role, helping our developing partners wiht capacity building projects on creating decent jobs, on diversification of the economy and selecting key sectors to invest; and on helping our development partners in the education sector/vocational training.
5. The **private sector** –investors and enterprises- is essential to identify and seize investment opportunities, including in the services sector (which we focused upon last year), and create a higher value-added economy. The private sector needs to be encouraged to engage in

enhancing the productive capacities of African economies. African governments may benefit from maintaining a constant dialogue with the private sector.

6. **Education and vocational training** to improve the quality of the domestic labour force are crucial. Education policies need to take into account the needs of local firms and provide the skills that businesses need to invest in necessary technologies and advance in the value chain.
7. **Regional trade integration** will help to increase competitiveness of the local economy and to integrate into regional and global value chains. The EU supports the need for African regional trade integration, improved infrastructure, elimination of trade barriers and greater transparency. In relation to **regional value chains** these can facilitate greater connections to global value chains. African firms – especially first-time exporters – would benefit from the experience of selling their products (more easily) to markets next door before expanding into global production networks.
8. Lastly, we would like to highlight **the role of women in building Africa's growth**, which is underlined in last year's Agreed Conclusion, but almost does not feature in this year's EDA Report at all.

All successful economic activity relies on an underlying **viable financial system**. **Financing for Development is therefore a crucial element for growth, prosperity, and development in general**, as was clearly stated and acknowledged in detail in last year's landmark Addis Ababa Action Agenda.

1. As Africa has major development aspirations (see the SDGs and the AU's Agenda 2063), this requires substantial financial resources. However, we note with concern that Africa's external and domestic debt had rapidly increased in recent years. African countries – like all national economies - need to strike a balance between increased financing needs (estimated by UNCTAD at 210bn USD/year for basic infrastructure, food security, health, education and climate change mitigation) and **the need to maintain debt sustainability.**
2. It is noteworthy to recall that – despite the gloom - Africa saw an overall growth rate of 4.6% in 2015.
3. **Domestic borrowing** is likely to play an increasingly significant role. The EU is committed to support African partners in their efforts. Overburdening debt constitutes a serious obstacle to development, it can be slowing down economic growth and increase poverty/social tensions/political instability.

4. African governments should – in their own **national responsibility** - take action to prevent rapid debt growth from becoming a crisis. The EU is willing to support Africa's development aspiration, included in the SDGs as well as in the AU's 2063 Agenda in regard to the strengthening of domestic resource mobilization and reversing illicit flows of capital, with 50bn USD equaling the total inflow of ODA.
5. **African countries indeed need to leverage all possible sources (tradition and new) of finance** and look at the wide range of complementary modalities of development finance that may help African's financing need.
6. Africa has made important progress in domestic financial sector development and financial deepening. Several countries have been able to issue bonds and other more marketable and long-term instruments. Plus, they have adopted policies aimed at developing their domestic debt markets - with support of the OECD, the IMF, and the WB.
7. It should be note that **remittances, diaspora savings and public-private partnerships** are key sources / opportunities for development finance:
    - Remittances represent a considerably growing source, a flow of 63.8bn USD to Africa in 2014.
    - **We appreciate the focus on Public-private partnerships** in today's reporting. PPP's are increasing. While they have a huge potential for benefits, it is also important to mitigate risks, in particular through sound regulatory frameworks.
8. Achieving debt sustainability also requires addressing challenges such as **revisiting Africa's existing debt sustainability frameworks** (analysis, assessment or debt distress, recommendations…). It should be noted that while 30 African countries are in low or moderate risk of debt distress, according to the IMF in late 2015, only two are in debt distress.
9. To just mention a few examples, **the EU-Africa Infrastructure Trust Fund** (EU-AITF) aims to increase investment in infrastructure in Sub-Saharan Africa by blending long term loans from participating financiers with grant resources. The EU Blending Framework has played an important role in the past. Since the creation of the first EU Blending Facilities in 2007 until 2015, more than EUR 2.7 billion of EU grants have leveraged almost EUR 23 billion of loans by financial institutions and regional development banks. The **EU-Africa Cairo Plan of Action** (CPA) also addresses debt and development.
10. **Moreover, the EU's Economic Partnership Agreements (EPAs)** with African, Caribbean and Pacific (ACP) countries and regions are a good example of EU agreements that support both regional integration and integration into the world economy, including exports to the

European Single Market. The EPAs expressly aim to stimulate ACP intra-regional trade, and not just trade with the EU.

11. In line with the Addis Ababa Action Agenda on Financing for Development, one of the tools that the Commission has foreseen is an External Investment Plan (EIP). We are contemplating measures to unlock investments in the real economy.
12. UNCTAD's **debt management and financial analysis system provides debt management** support in 23 African countries. According to UNCTAD, Africa improved in terms of financial sector development and access to banking services (although big gaps between urban & rural regions remain).

Mr Chair:

The EU is committed to supporting our African partners in enhancing their financial sector, to promoting intra-African trade, to building capacity and to diversifying their economies so they can attain sustainable economic growth and prosperity. The way forward will be challenging and **requires international and regional cooperation** (to build institutional capacity in addressing African development needs and debt management challenges) but the rewards are worth the journey.

Thank you.